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Message Text

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11
ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

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---------- 115364
R 031752Z DEC 76
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 1817

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E.O. 11652: N/A
TAGS: ENRG, ETRD, CA
SUBJ: FIRST LONG-TERM PETROLUEM PRODUCT EXPORT
LICENSEGRANTED BY NATIONAL ENERGY BOARD (NEB)

1. BEGIN SUMMARY. NEB APPROVED ON DEC 1 EXPORT LICENSE PERMITTING UNION CARBIDE CANADA TO SUPPLY HEAVY FUEL TO CONSUMERS' POWER UNDER FIVE-YEAR CONTRACT. OTHER PENDING APPLICATIONS MAY PRODUCE A SERIES OF LONG-TERM CONTRACTS TOTALING 115-120 MILLION BARRELS OF HEAVY FUEL EXPORTS. GOC ENERGY OFFICIALS SAY THIS IS NOT A CHANGE IN OIL EXPORT POLICY, BUT AN EXCEPTIONAL EFFORT TO MARKET BY-PRODUCT OF PETRO-CHEMICAL PRODUCTION NOT SALEABLE IN CANADA. GOC HOPES APPROVAL OF THESE LICENSES WILL NOT BE SEEN BY PUBLIC AS "END RUN" ON OIL EXPORT POLICY. END SUMMARY.

2. NEB ISSUED FOLLOWING NEWS RELEASE DECEMBER 1:

QUOTE. OTTAWA - THE NATIONAL ENERGY BOARD ANNOUNCED TODAY THAT IT HAS GRANTED ITS FIRST LONG-TERM OIL PRODUCT EXPORT
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LICENSE TO UNION CARBIDE CANADA LIMITED. A JOINT HEARING

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WAS HELD IN OTTAWA IN SEPTEMBER CONCERNING APPLICATIONS FROM UNION CARBIDE CANADA LIMITED, SUN OIL COMPANY AND IMPERIAL OIL LIMITED. THE BOARD'S REPORT ON THIS AND THE OTHER APPLICATIONS WILL BE RELEASED SHORTLY.

UNION CARBIDE WAS GRANTED A FIVE-YEAR EXPORT LICENSE BEGINNING SEPTEMBER 1, 1977 TO EXPORT A TOTAL OF 47,412,000 BARRELS OF RESIDUAL FUEL OIL TO CONSUMERS' POWER COMPANY OF JACKSON, MICHIGAN, SUBJECT, AFTER 1979, TO ANNUAL DETERMINATIONS OF SURPLUS AND JUST AND REASONABLE EXPORT PRICE. END QUOTE.

3. COMMENT: ENERGY, MINES AND RESOURCES (EMR) OFFICIAL RESPONSIBLE FOR REFINING AND MARKETING POLICY DEVELOPMENT INFORMED EMBOFF DECEMBER 3 THAT APPROVED UNION CARBIDE APPLICATION IS PART OF PACKAGE OF HEAVY FUEL OIL EXPORT APPLICATIONS. THREE MORE ARE PENDING: TWO FROM IMPERIAL OIL, TO EXPORT TO EXXON USA AND CONSUMERS' POWER, AND ONE FROM SUN OIL TO EXPORT TO DETROIT EDISON. THESE CANADIAN FIRMS MUST FIND MARKETS FOR HEAVY FUEL WHICH IS ESSENTIALLY A BY-PRODUCT OF NAPTHA PRODUCTION. REFINERIES IN QUESTION WERE ORIGINALLY DESIGNED WITH CROSS-BORDER HEAVY FUEL CUSTOMERS IN MIND AND DO NOT HAVE THE TECHNICAL FLEXIBILITY TO REFINE THE RESIDUAL FROM NAPTHA PRODUCTION INTO LIGHTER PRODUCTS SUCH AS MOTOR GASOLINE.

4. EMR OFFICIAL STRESSED THAT THIS MOVE SHOULD NOT BE CONSIDERED A CHANGE IN OIL EXPORT POLICY. EMR AND NEB ARE IN FACT CONCERNED THAT GRANTING THESE LICENSES WHICH WILL ALLOW EXPORT OF 115 TO 120 MILLION BARRELS OF PRODUCT OVER FIVE-YEAR PERIOD (THE EQUIVALENT OF NEXT YEAR'S TOTAL CRUDE OIL QUOTA) MIGHT BE SEEN AS "END RUN" ON CRUDE OIL EXPORT POLICY. EXPORT OF THE REFINED HEAVY FUEL WILL REDUCE CRUDE EXPORTS BY ONLY ONE-HALF BARREL FOR EVERY BARREL OF REFINED PRODUCT INSTEAD OF ONE FOR ONE RATIO. GOC ENERGY AUTHORITIES HOPE THAT POSSIBLE NEGATIVE PUBLIC REACTION TO GRANTING THE LICENSES WILL BE MITIGATED BY RATIONALE THAT REFINING THE OIL BEFORE EXPORT ADDS VALUE IN CANADA AND EARNS NEEDED FOREIGN
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EXCHANGE.
ENDERS

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NNN

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